

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



FILED

11-05-07
04:59 PM

In the Matter of the Application of Southern California Gas Company (U 904 G), San Diego Gas & Electric Company (U 902 M) and Southern California Edison Company (U 338 E) for Approval of Changes to Natural Gas Operations and Service Offerings.

A.06-08-026

NOTICE OF EX PARTE COMMUNICATION

In accordance with Rule 8.3 of the Commission's Rules of Practice and Procedure, the Southern California Gas Company ("SoCalGas"), San Diego Gas & Electric Company ("SDG&E"), and Southern California Edison Company ("Edison") jointly file notice of Ex Parte communication on November 2, 2007.

I.

On November 2, 2007, an ex parte communication occurred between various advisors to the Commissioners and representatives of SoCalGas, SDG&E, and Edison. Attending the meeting were Colin Cushnie, Director of Regulatory Affairs for Edison; Lad Lorenz, Vice President of Regulatory Relations for SoCalGas and SDG&E; Michael Thorp, attorney for SoCalGas and SDG&E; and Pedro Villegas, Manager of Regulatory Relations for SoCalGas and SDG&E. The following advisors attended the meeting: Lindsay Brown, advisor to Commissioner Bohn; Andy Campbell, advisor to Commissioner Chong; Tim Sullivan, advisor to Commissioner Simon; Andy Swartz, advisor to President Peevey; and Steve St. Marie, advisor to Commissioner Bohn. The meeting was held in the Commission's offices beginning at 10:00 a.m., and lasting approximately 45 minutes. Lad Lorenz of SoCalGas and SDG&E initiated the meeting. The communications were written and oral. A copy of the written communication provided in the meeting is attached.

II.

SoCalGas, SDG&E, and Edison jointly convened this meeting for the purpose of discussing provisions of their joint application for approval of changes to natural gas operations

and service offerings. SoCalGas, SDG&E, and Edison also sought to respond to arguments made by Coral Energy Resources, L.P. (“Coral”), in ex parte meetings held on Friday, October 12, 2007, with advisors to the Commissioners.

Mr. Cushnie provided historical background on the application by SoCalGas, SDG&E and Edison. The requested changes are integral parts of two settlements (the “Continental Forge” and “Edison” settlements) that resolve a decade of litigation among SoCalGas, SDG&E, and Edison. Taken together, the requested changes represent a careful balancing of interests that directly reduce the cost of utility service, increase transparency, and provide for new core services in the marketplace. Mr. Cushnie indicated that most parties to this application support the majority of the elements in the application but seek specific modifications to enhance their specific interests. The modifications would, moreover, potentially result in unintended consequences that would erode the significant improvements contained in the application.

In responding to questions regarding the storage proposals contained in the application, Mr. Lorenz noted that some parties argue for more core storage while others argue for less. Mr. Lorenz stated that the 70 Bcf of storage requested in the application is based on the appropriate level of storage to provide reliability to a SoCalGas/SDG&E consolidated gas portfolio. Mr. Cushnie added that this level of storage is a necessary physical hedge to provide operational reliability in winter months to complement traditional winter pricing hedges. Under the agreement, the consolidated utilities, Mr. Lorenz continued, are able to purchase additional storage capacity, should there be a need, at market prices. The application also provides for a secondary storage market to help non-core customers meet demand for additional storage.

Mr. Thorp noted challenges by Coral to the current ratepayer/shareholder incentive structure in the Gas Cost Incentive Mechanism (GCIM). Mr. Thorp said that SoCalGas’ demonstrated performance as a consistent low-cost procurer of natural gas among its peers is clear evidence that the current GCIM incentive structure works well to ensure that gas is procured at low prices on behalf of the core. Mr. Cushnie and Mr. Lorenz agreed that it is in the interest of all parties to maintain the exclusion of winter hedges from the GCIM. Excluding winter hedges from the GCIM addresses claims raised by Edison in the Border OII proceeding. Moreover, winter hedges, Mr. Lorenz stated, should be treated strictly as an insurance policy against unforeseen price fluctuations, a policy independent from procurement functions.

Mr. Cushnie reiterated Edison's strong support for the transfer of energy hub operations from SoCalGas Gas Acquisition ("Gas Acquisition") to an independent System Operator administered under enhanced transparency and balancing rules proposed in the application. Edison's concern for Gas Acquisition's concurrent position as the single largest shipper on the SoCalGas system and provider of utility hub services is addressed by this transfer to the System Operator. Mr. Cushnie also noted that the application preserves the ability of the core to market core assets for the benefit of core customers, consistent with the objective of treating the core more like the non-core.

To request a copy of this notice, please contact:

Trish Rickard
601 Van Ness Avenue, Suite 2060
San Francisco, CA 94102
Telephone: (415) 202-9986
Facsimile: (415) 346-3630
Email: Trickard@semprautilities.com

Respectfully submitted,

/s/ Lad Lorenz

Lad Lorenz, V.P. Regulatory Relations – San Francisco
Southern California Gas Company and
San Diego Gas and Electric Company
601 Van Ness Avenue, Suite 2060
San Francisco, CA 94102

Date: November 5, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing NOTICE OF EX PARTE COMMUNICATION on all known interested parties of record in A.06-08-026 by electronic mail, and by U.S. mail to those without an email address.

Dated at Los Angeles, California this 5th day of November, 2007.

/s/ Rose Mary Ruiz

Rose Mary Ruiz

CALIFORNIA PUBLIC UTILITIES COMMISSION

Service Lists - Proceeding: A0608026 - Last CPUC Update: November 2, 2007

kmccrea@sablaw.com; keith.brown@swgas.com; francisco.aguilar@swgas.com; mthorp@sempra.com; dhuard@manatt.com; wlack@elllaw.com; npedersen@hanmor.com; brad@bblsurflaw.com; klatt@energyattorney.com; klatt@energyattorney.com; douglas.porter@sce.com; burkee@cts.com; wtobin@sempraglobal.com; snelson@sempra.com; marcie.milner@shell.com; jleslie@luce.com; marcel@turn.org; mzafar@semprautilities.com; mflorio@turn.org; dil@cpuc.ca.gov; edm@cpuc.ca.gov; map@cpuc.ca.gov; ek@a-klaw.com; rbm4@pge.com; jarmstrong@gmssr.com; edwardoneill@dwt.com; tomb@crossborderenergy.com; glw@eslawfirm.com; steve.williams@swgas.com; valerie.ontiveroz@swgas.com; ghealy@semprautilities.com; HYao@SempraUtilities.com; bmusich@semprautilities.com; centralfiles@semprautilities.com; rcavalleri@semprautilities.com; rkeen@manatt.com; nwhang@manatt.com; asteele@hanmor.com; Case.Admin@sce.com; Jairam.gopal@sce.com; michael.alexander@sce.com; ygross@sempraglobal.com; bruce.foster@sce.com; filings@a-klaw.com; sls@a-klaw.com; kjbh@pge.com; lcr0@pge.com; MEkd@pge.com; mmattes@nossaman.com; suzannetoller@dwt.com; pthompson@summitblue.com; ceyap@earthlink.net; mrw@mrwassoc.com; jdh@eslawfirm.com; egw@a-klaw.com; alf@cpuc.ca.gov; pzs@cpuc.ca.gov; rxr@cpuc.ca.gov; rmp@cpuc.ca.gov; trp@cpuc.ca.gov; mbm@brianmcmahonlaw.com; marywong@semprautilities.com; rruiz@sempra.com; TRickard@semprautilities.com

Southern California Gas Company,
San Diego Gas & Electric Company,
and
Southern California Edison Company

Omnibus Application

A.06-08-026

Summary of the Application

- Results from the “Continental Forge” and “Sempra Utilities – SCE” settlements that resolve 2000-01 Energy Crisis claims and market power allegations
- Provides significant benefits to gas and electric customers by:
 - Directly reducing the costs of utility service
 - Increasing transparency
 - Introducing new services
- Resolves more than 10 years of contentious litigation between Sempra Utilities and SCE

The Application Represents a Careful Balancing of Interests

- The Sempra Utilities, Continental Forge plaintiffs and SCE expended significant resources and time to develop the comprehensive and balanced set of proposals contained in the Application
- The package of proposals treats core and noncore customers fairly
- Individual proposals should not be viewed in isolation (e.g., new core balancing rules are closely related to the transfer of minimum flow requirements from core customers to the system operator)
- A number of the proposals are designed to treat the core more like the noncore

Changes Proposed by Intervenor Should be Rejected

- Most parties to this proceeding support elements of the Application, while seeking certain modifications to enhance their interests
- To Applicants, this demonstrates that the settlements achieve the right balance
- Intervenor such as Coral want more more concessions from Sempra Utilities and/or additional market modifications that adversely impact core interests, system operations, and/or utility shareholders
- Changing the proposals presented in the Application will inevitably upset the careful balance represented by the settlements, and harm some other customer group or utility shareholders